

DD/S-61-0050

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6 January 1961

MEMORANDUM FOR: Deputy Director (Support)

25X1A2d2 SUBJECT : Project [REDACTED]

25X1A2d2 1. I have reviewed the files of the Audit Staff on subject project to determine action taken by the Audit Staff with respect to the conditions discussed in the Inspector General's study of Project [REDACTED].

2. The only "audit" of the project by the Audit Staff covered the period 18 December 1952 to 31 December 1954. Although the audit report identified areas of noncompliance with the administrative plan as well as a generally unsatisfactory condition of the records, the report indicates that restrictions on access to basic records and data precluded the verification and other audit procedures necessary to determination as to the actual existence or use of assets and funds provided the project. The audit was thus not considered to be conclusive.

3. Subsequently, representatives of the Audit Staff participated in several meetings dealing with the unsatisfactory condition of the project and endeavored to develop a basis on which a satisfactory audit could be conducted. Proposals included use of witting or unwitting public accountants as well as Agency staff auditors. On 14 January 1957, the Chief, Audit Staff, addressed a dispatch to the field auditor indicating that proposals to use public accountants had been rejected on security grounds and instructing that another field audit be attempted by an Audit Staff representative.

25X1A6c 4. By [REDACTED] dated 5 June 1957, the [REDACTED] Field 25X1A6b Audit Staff, reported that when he contacted the station to arrange for the audit he found the Finance Officer was in process of auditing the project. He accordingly deferred action to avoid duplication of effort.

25X1A6a 5. Upon completion of his audit, the [REDACTED] Finance Officer reported in [REDACTED] dated 9 May 1957, that "From the experience gained during our examination, it is our conclusion that the conditions under which an audit must be conducted make conclusive audit impossible."

25X1A6a 6. In his review of available records and the work of the [REDACTED] Finance Staff as well as restrictions on audit access to basic data, the [REDACTED] Audit Office, concurred in the above stated conclusion and requested further instructions from Headquarters in [REDACTED] 25X1A6c

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7. Although the file does not reflect further action in the matter, it is clear that the Audit Staff continued to participate in various meetings called to discuss corrective actions required of the project and the need for audit action. These matters were not, however, resolved before decision to terminate the project was reached during 1958. A liquidation plan was approved on 18 September 1959. The field Audit Staff was then instructed to review the status of and progress toward liquidation.

8. In retrospect, it seems to me that the record reveals that the Audit Staff was diligent and persistent in its efforts to discharge its audit responsibilities in the case. That audit determinations were not more conclusive must be attributed to restrictions and limitations placed on audit which precluded application of normal audit techniques. In light of today's policies and atmosphere, if there was incomplete audit action in the case, I feel that it was the apparent failure to bring the unsatisfactory condition, and particularly the circumstances which precluded the full discharge of audit responsibility, to operational officials above the responsible division level as well as to the Deputy Director (Support). I assure you that should a case occur today wherein audit processes are resisted or restricted because of security or other reasons, the Deputy Director (Support) as well as the Deputy Director (Plans) will be fully informed.

9. Finally, although restrictions on audit undoubtedly contributed to the inability of audit to furnish conclusive data in this case, I am sure that it is recognized that even under optimum conditions, audit processes, either in this Agency or elsewhere, do not and cannot within reasonable cost and manpower limits, give complete assurance that fraud, abuse, or misuse of assets and authorities will not occur, or, if they occur, that they will be detected. This assurance rests primarily in the degree and manner in which operational and other officials recognize and discharge their responsibilities for exercising the operational and administrative controls which underlie all financial control. This case has again emphasized the fact that there is a direct relationship between financial and operational responsibility. If operational controls and techniques for review and appraisal of operations are objectively applied, the need for financial control will be satisfied. Conversely, if laxity and irresponsibility are evident in financial matters, it is almost inevitable that objective review will reveal deficiencies in operational performance.



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